



DEPARTMENT OF AGRICULTURE

Rural Housing Service

[Docket No. RHS-19-MFH-0024]

Change in the Lease-Up Reserve Calculation for the Section 538 Guaranteed Rural Rental Housing Program

AGENCY: Rural Housing Service, USDA.

ACTION: Notice.

SUMMARY: The Rural Housing Service (RHS or the Agency), a Rural Development (RD) agency of the United States Department of Agriculture (USDA), is announcing a new calculation of the required Lease-up Reserve for the Section 538 Guaranteed Rural Rental Housing Program (GRRHP).

DATES: The effective date of the new calculation is **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

FOR FURTHER INFORMATION CONTACT: Tammy Daniels, Finance and Loan Analyst, Multi-Family Housing Production and Preservation Division, Rural Housing Service, USDA, STOP 0781, 1400 Independence Avenue, SW, Washington, DC 20250-0781, Telephone: (202) 720-0021 (this is not a toll-free number); e-mail: tammy.daniels@usda.gov.

SUPPLEMENTARY INFORMATION:

Authority:

The RHS administers the Section 538 Guaranteed Rural Rental Housing Program (GRRHP) loans under the authority of the Housing Act of 1949, as amended (42 U.S.C. 1490p-2) and is implemented under 7 CFR part 3565.

Background

RHS administers the Section 538 GRRHP under the authority of the Housing Act of 1949, as amended (42 U.S.C. 1490p-2). The purpose of the GRRHP is to increase the supply of affordable rural rental housing, using loan guarantees that encourage partnerships between the RHS, private lenders, and public agencies.

Lease-up Reserve and Formula

As a condition to making the loan, the RHS Section 538 GRRHP may require borrowers to establish a lease-up reserve account to help pay operating costs and debt service costs at the initiation of operations while units are being leased to their initial occupants. It is an additional amount (cash deposit), over and above the required initial operating and maintenance contribution. In short, its purpose is to ensure that adequate funds are available for unexpected costs. 7 CFR 3565.303(d)(3) requires the project to either attain a minimum level of acceptable occupancy of 90% for 90 continuous days within the 120-day period immediately preceding the issuance of the permanent guarantee or establish a lease-up reserve in an amount the Agency determines is necessary to cover projected shortfalls. The current lease-up reserve calculation is based on the appraised value of the project or the total development cost, whichever is greater and produces an inflated amount the Agency has determined to be disproportionate. In addition, the current calculation fails to contemplate a property's specific operating needs during lease up and bears no correlation to the timeframe identified in the other acceptable Loan Note Guarantee (LNG) issuance threshold, which is sustained occupancy at 90% for a period of 90 days. To

align the agency's LNG issuance thresholds and reduce the burden to the borrower, the new lease up reserve calculation described below, will represent an on-average savings to the borrower of approximately \$100,000 per transaction, while adding a truer level of protection for project operations (this is based off of a random sampling of prior transactions).

As set forth in 7 CFR part 3565, the Agency is required to announce when there is a change in its calculation for the required amount of the lease-up reserve. To calculate the new required minimum lease-up reserve amount, add the monthly amount of the Operations and Maintenance (O&M) expense, the monthly amount of the Debt Service Cost, and the monthly amount of the Reserve Deposit, then multiply this sum by three. The calculation may be written as follows:

$$\begin{aligned} & (\text{Monthly O\&M Expense} + \text{Monthly Debt Service Amount} + \text{Monthly Reserve Deposit}) \times \\ & 3 = \text{Minimum Required 538 Lease-Up Reserve Amount.} \end{aligned}$$

Paperwork Reduction Act

This notice contains no new reporting or recordkeeping burdens under Office of Management and Budget (OMB) control number 0575–0179 that would require approval under the Paperwork Reduction Act of 1995 (44 U.S.C. Chapter 35).

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Joaquin Altoro,

Administrator,

Rural Housing Service.

[FR Doc. 2022-19019 Filed: 9/2/2022 8:45 am; Publication Date: 9/6/2022]